

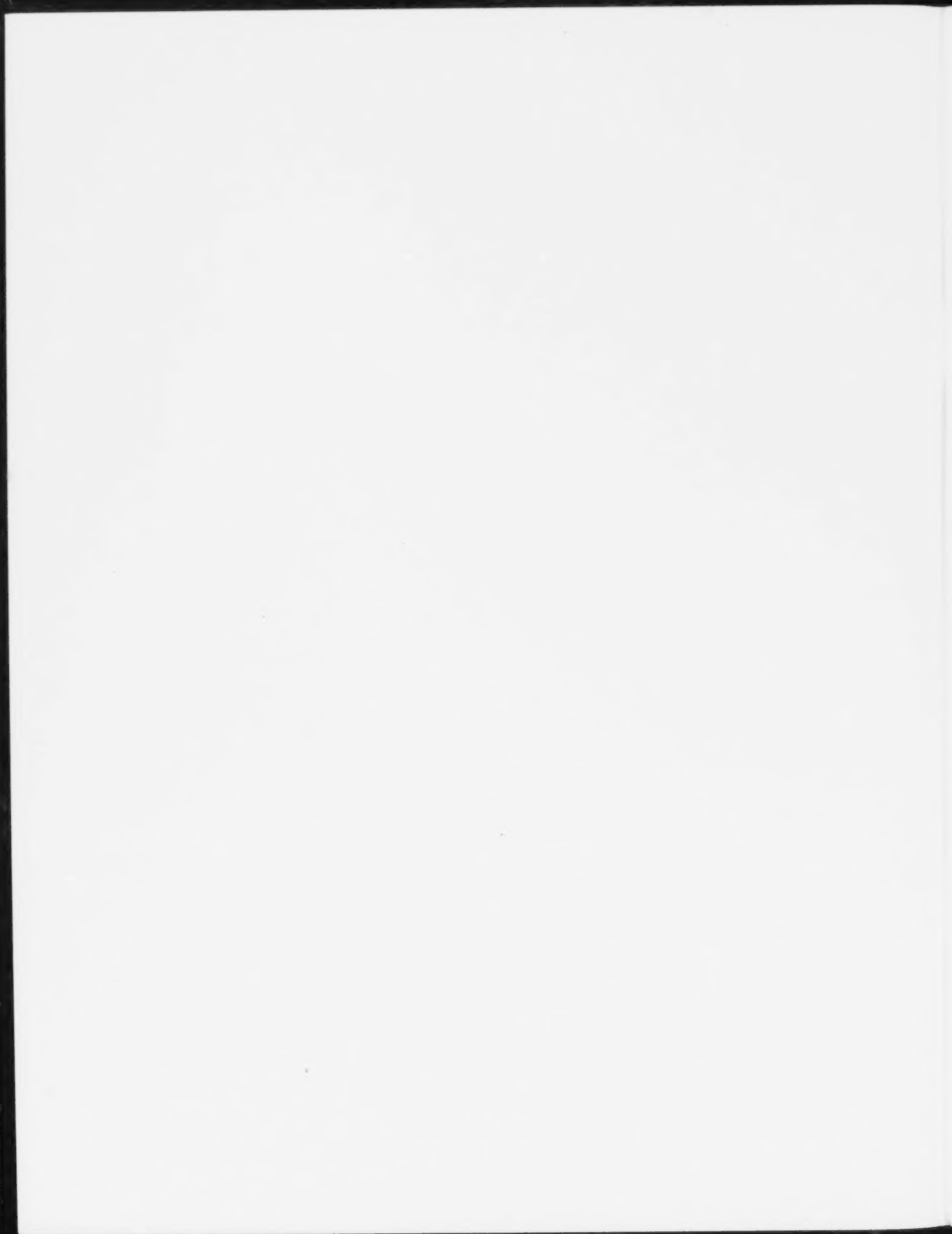


Teachers'
Pension Plan

Annual Report 2006

JANUARY 1, 2006–DECEMBER 31, 2006

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Annual Report 2006

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Teachers' Pension Board of Trustees



Front Row: Wayne Jefferson, John W. Cook, Tom Vincent

Middle Row: Carolyn Prellwitz, Joan Axford

Back Row: Linda Watson, Bruce Kennedy, Lucas Corwin, Keri Smith, Gerry Tiede, Dale Lauber

Message from the Board

The Teachers' Pension Board of Trustees is pleased to present this annual report for the fiscal year ending December 31, 2006. We manage your pension plan, administering benefits and investing over \$16 billion in assets on behalf of our 83,000 plan members. The BC Pension Corporation is our administrative agent, and the British Columbia Investment Management Corporation (bcIMC) is our investment management agent.

We continued to carefully monitor the plan's financial health in 2006. An actuarial valuation of the plan as of December 2005 showed that the fund remains financially sound. However, while investment returns in recent years have been strong, average returns are still recovering from market downturns in 2001 and 2002. With these lower-than-assumed returns, and with changes made to fund projections to reflect actual experience since the last valuation, the actuary determined that the plan has an unfunded liability of \$904 million. An unfunded liability occurs when the money that is expected to be available for future pensions is less than the projected cost of paying for those pensions. The board must increase member and employer contribution rates equally when an unfunded liability exists. These rates will each increase by 1.61% of salary paid on or after July 1, 2007.

We developed a funding policy in 2006 to define how we will manage the plan's contribution rates and assets to ensure they are sufficient to meet the plan's benefit promises at all times. The funding policy provides a fiscal framework for guaranteed pension benefits, non-guaranteed future indexing of pension benefits and non-guaranteed post-retirement group health benefits.

We took steps to control increasing retiree health benefit costs, deciding to eliminate the subsidized retiree dental plan in 2007 and replace it with an

unsubsidized plan effective August 1, 2007. The board will continue to monitor available funding for retiree extended health benefits so that the plan can continue to subsidize these benefits as long as possible, though it is likely that all retirees will pay some or all of the premiums in the future.

Also, we negotiated a more cost-effective administration fee arrangement with the plan's post-retirement group health benefits provider, Pacific Blue Cross.

Investing the plan's assets for the long-term benefit of our plan members continued to define our investment approach in 2006. Our priority was consistent and steady performance over the long term through sound investment principles. Also, we further explored the benefits of responsible investing principles. As part of this approach we asked bcIMC to set up a pooled investment portfolio based on these principles, and we are now investing in this portfolio.

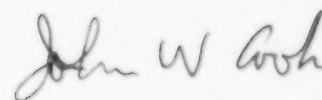
We remained committed to providing accurate and timely information to all members. The web was again a focus in 2006. The launch of My Account in 2006 provided active members with enhanced online features such as displays of personal information and service summaries, and easier access to a personalized pension estimator. Retiree access to plan-specific online information was improved with the introduction of a Teachers' Retired Member page,

Investing the plan's assets for the long-term benefit of our plan members continued to define our investment approach in 2006.

Message from the Board

while online services were increased for active members and employers. Additions to the plan's website included more information about the plan's investments, a direct link to bcIMC's website, and the most recent actuarial report.

If you would like to contact us or share your comments, please write or e-mail us at the address on the back cover.



John W. Cook, Chair

Teachers' Pension Board of Trustees

as at December 31, 2006

John W. Cook	Chair
Joan Axford	Secretary-Treasurer, School District #63 (Saanich)
Lucas Corwin	Executive Director, Labour Relations, Law and Legislation, Public Sector Employers' Council Secretariat
Wayne Jefferson	Retired Secretary-Treasurer, School District #36 (Surrey)
Bruce Kennedy	Executive Director, Pensions, Public Sector Employers' Council Secretariat
Dale Lauber	Retired Director, British Columbia Teachers' Federation
Carolyn Prellwitz	Assistant Director, Income Security, British Columbia Teachers' Federation
Ken Smith	Retired member
Gerry Tiede	Principal, School District #36 (Surrey)
Tom Vincent	Assistant Deputy Minister, Ministry of Advanced Education
Linda Watson	Teacher, School District #44 (North Vancouver)

Partners, Trustees and Agents

The Teachers' Pension Plan is jointly trusteeed and is governed by a joint trust agreement. Joint trusteeship is the shared management of the plan by representatives of both plan members and government. The plan partners are the BC Teachers' Federation (BCTF) and the provincial government. The partners are responsible for appointing the trustees.

The Teachers' Pension Board of Trustees is responsible for managing the pension plan, including investment of assets and plan administration. The board may amend the pension plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the plan. If the plan's actuary determines that it is necessary to increase contribution rates, the trustees must increase employer and member contribution rates equally.

The British Columbia Pension Corporation provides benefit administration services as an agent of the board. The corporation enrolls members, collects contributions, processes benefits and issues pension payments.

The British Columbia Investment Management Corporation (bcIMC) is an investment management corporation based in Victoria, BC. With over \$81 billion in assets under administration with a global exposure, and supported by industry-leading investment expertise, bcIMC offers fund management services for all major asset classes, including currency and infrastructure investment. The bcIMC's clients include pension plans, provincial government, public trusts, and insurance funds. The bcIMC provides investment management services as an agent of the Board of Trustees.



Teachers' Pension Board of Trustees

MISSION STATEMENT

"To fulfill the trust the Partners have placed on us by efficiently meeting or exceeding the pension promise made to plan members."

Member Services and Communications

Communicating with plan members is a priority of the board. Pension information can sometimes be complex and difficult to communicate. Our communications staff follow approved guidelines to ensure that plan information is easy to understand and easy to use. By continually simplifying and focus testing many of our member and employer communications, we strive to improve their effectiveness and quality.

To update active members on their benefits, service and contributions, we produce the annual *Member's Benefit Statement*. Along with the statement, we provide summary financial information and recent plan updates in the *Report to Members*. We also regularly produce fact sheets, guides, forms and bulletins for active and retired members, and maintain online retirement planning tools and information. Twice a year, we publish a newsletter specifically for our retirees.

We look to the Internet as an effective and efficient communication tool, and continue to add to our online information and plan for future website enhancements. Our website at tpp.pensionsbc.ca provides pension plan information, services and tools, including online pension estimators.

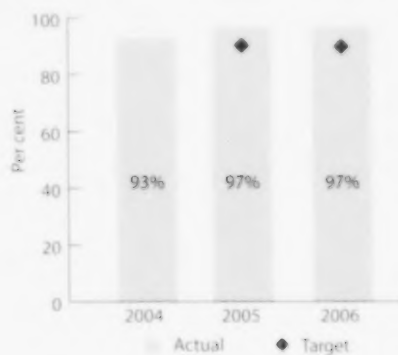
Performance Measures and Targets

April 1, 2005 to March 31, 2006

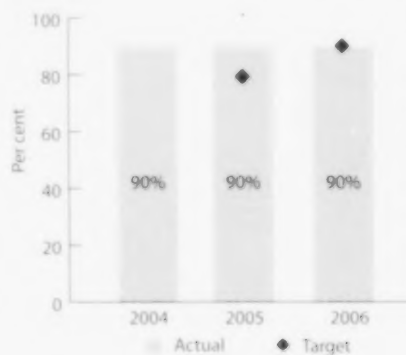
The Teachers' Pension Plan is dedicated to providing quality, cost-effective service to plan members. Our administrative agent, the Pension Corporation, continues to provide outstanding service to our clients. The board approves service standards for the plan, including client satisfaction and service response times, and monitors performance against those standards. Regular surveys of plan members show that both active and retired members give the Pension Corporation a high satisfaction rating for service quality.

Satisfaction for the year ended March 31

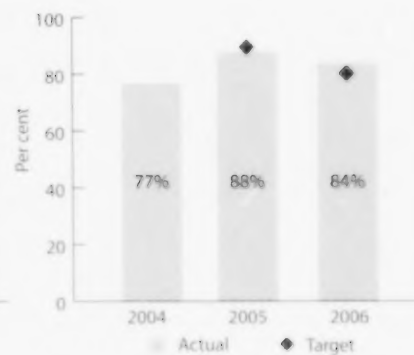
Recently Retired Members



Longer-term Retired Members



Active Members



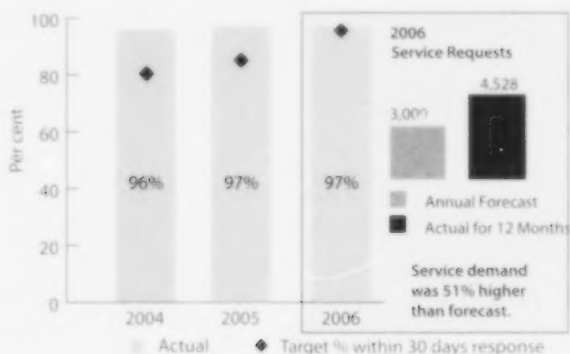
Member Services and Communications

As the following graphs indicate, the plan has maintained service response over the past three years, while continuing to handle higher than anticipated levels of service demand. Annual service

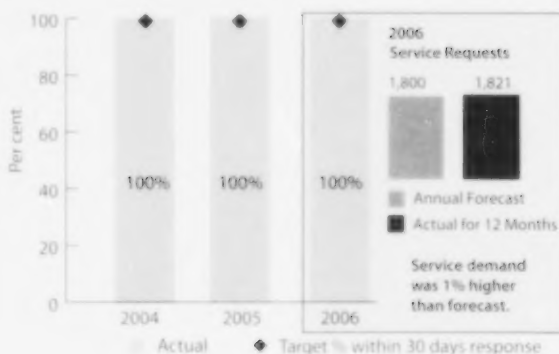
results are for the 12 months ending March 31, 2006, based on the board's service agreement with the Pension Corporation.

Service for the year ended March 31

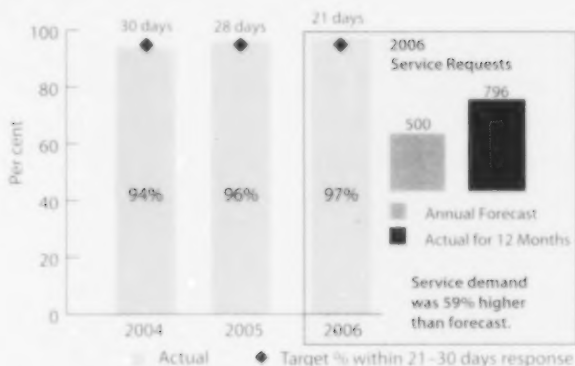
Final Pension Options on Time



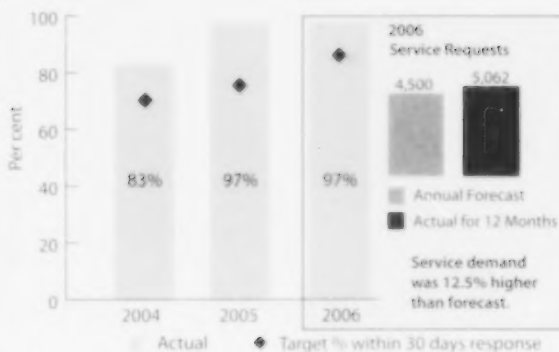
First Pension Payment on Time



Termination Options on Time



Purchase Quotes on Time



Plan Participants

Membership in the Teachers' Pension Plan is open to all certified teachers (including teachers on call), principals and vice-principals, directors of instruction, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of school trustees in the British Columbia public school system, and to eligible employees of other employers approved by the board. New employees, including those employed in a less-than-half-time capacity, must be immediately enrolled in the Teachers' Pension Plan, and cannot opt out of enrolling in the plan. Employee contributions continue until the member terminates employment, retires, or accrues 35 years of pensionable service.

Participating employers are the school districts, the British Columbia College of Teachers, the British Columbia Principals' and Vice-Principals' Association, the British Columbia School Superintendents' Association, the British Columbia Teachers' Federation, the Francophone Education Authority, and the Teacher Qualification Service (British Columbia).

There are three categories of members in the Teachers' Pension Plan:

- **Active**—those who are currently contributing, or are receiving benefits from an approved salary continuance plan, or are on a leave of absence.
- **Inactive**—those who have terminated their employment and left contributions in the plan. They may

or may not be eligible for a pension in the future. Those who are eligible for a pension in the future are known as vested and deferred members. If an inactive member not entitled to a pension under the plan again becomes an active member, they may become eligible for a pension by returning to work, recommencing contributions and accruing additional service in the Teachers' Pension Plan.

- **Retired**—those who are receiving a pension, including those who are receiving a disability pension.

There are 47,615 active members in the plan, an increase from 2005. The number of retired members increased by 7% to 24,202.

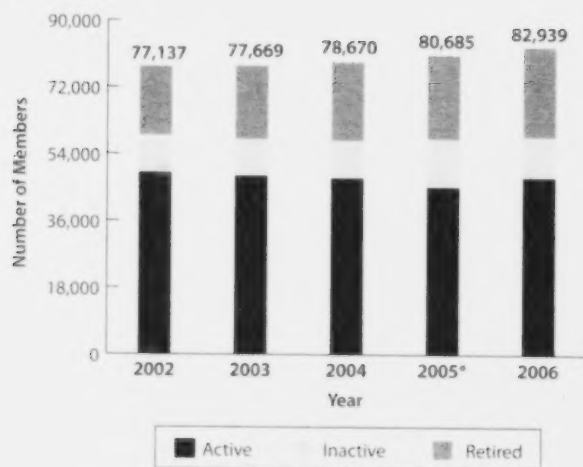
Number of Members

As at December 31	Active	Inactive, Terminated	Inactive, Vested and Deferred	Retired	Total
2006	47,615	7,132	3,990	24,202	82,939
2005*	47,250*	6,983*	3,816	22,636	80,685
2004	47,321	6,802	3,492	21,055	78,670
2003	47,878	6,757	3,301	19,733	77,669
2002	48,690	6,710	3,202	18,535	77,137

* Corrected

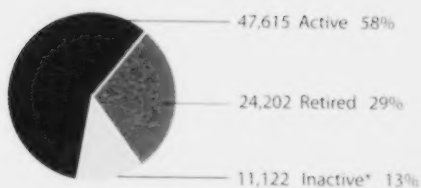
Plan Participants

Number of Members as at December 31



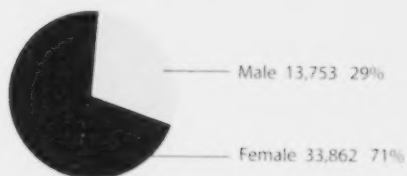
* Corrected

Membership Profile

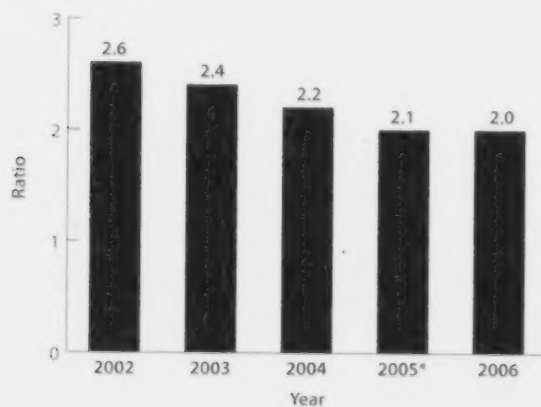


* Members no longer employed, but with money in the plan.

Active Member Profile

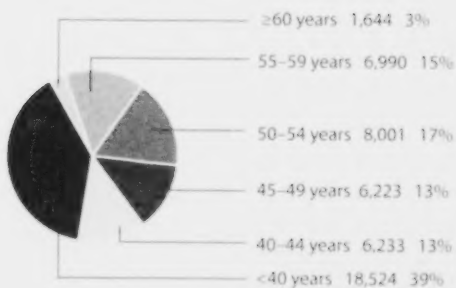


Ratio of Active Members to Retired Members As at December 31



* Corrected

Age Profile of Active Members



Contributions

Plan members contribute through automatic deductions from their salary. Both plan members and employers pay contributions to fund future pension benefits. A member who terminates employment, retires, or reaches 35 years of pensionable service ceases contributions. For an active member's pensionable service over 35 years, the employer continues to contribute until the end of the calendar year in which the member reaches age 69. The contribution rates in the sidebar are applied to pensionable salaries.

Contributions (including purchases of service)

Year ended December 31

\$ Millions

Current and Future Contribution rates:

Member

- 7.55% of pensionable salary up to and including the YMPE* (9.16% July 1, 2007), and
- 9.05% of pensionable salary in excess of the YMPE* (10.66% July 1, 2007)

Employer

- 10.68% of pensionable salary up to and including the YMPE* (12.29% July 1, 2007), and
- 12.18% of pensionable salary in excess of the YMPE* (13.79% July 1, 2007)

* Year's Maximum Pensionable Earnings (YMPE) is the limit to earnings on which Canada Pension Plan contributions are made. The 2006 YMPE was \$42,100, and will increase to \$43,700 in 2007.



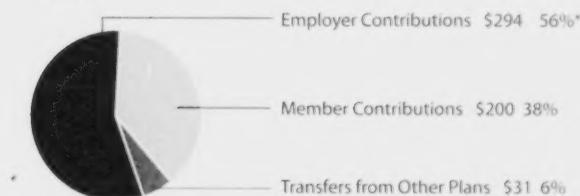
* Includes a one time \$20 million contribution by the provincial government to the Inflation Adjustment Account.

** Member contributions declined in 2000 as a result of decreased purchases of service.

*** 1998 employer contributions includes \$9.69 million early retirement funding from the province.

Contribution Revenue

\$ Millions



* Includes a one time \$20 million contribution by the provincial government to the Inflation Adjustment Account.

Plan Benefits

Plan benefits are defined by the pension plan rules made under the authority of the Joint Trust Agreement.

Pensions

Basic Pension (guaranteed)

The basic pension benefit is defined, meaning the pension is based on how many pensionable years the member has accrued in the plan, the average of the best five years of salary (not necessarily the last five years) and age at retirement. The pension is not based on contributions to the plan, nor is it based on the investment performance of the plan's assets. The advantage of a defined benefit plan is that the pension is predictable. The plan provides entitlement to a pension benefit after two years of contributory service. The plan also provides survivor and disability benefits.

At December 31, 2006, the plan provided pensions to 24,202 retired members, an increase of 6.9% from the previous year.

Indexing (not guaranteed)

Indexing is a non-guaranteed cost-of-living supplement to the basic pension. It is paid only to the extent that there is sufficient money in the Inflation Adjustment Account (IAA), which is funded by member and employer IAA contributions to the plan.

On January 1, 2006, retired members received a full Consumer Price Index (CPI) increase of 3.4%. On January 1, 2007, retired members will receive a full CPI increase of 0.7%. Inflation increases to the pension may be provided each year based on changes in the CPI. (See Note 7b to the Financial Statements). Indexing, once granted, is guaranteed. The board monitors the plan's ability to continue to provide full indexing.

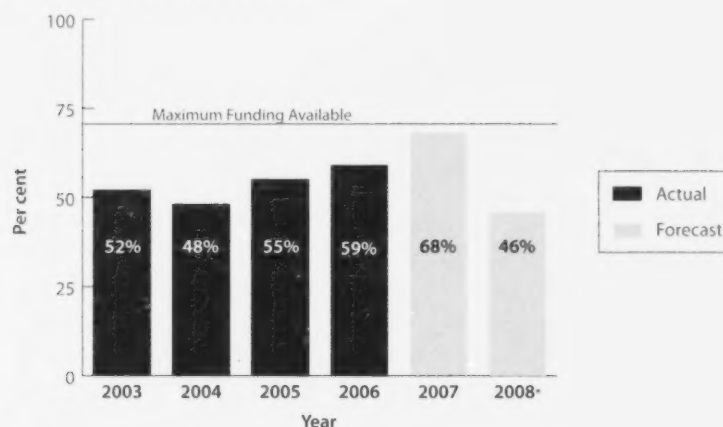
Post-retirement Group Health Benefits (non-pension, not guaranteed)

Group benefits (extended health and dental) are not guaranteed. They are funded by a limited portion of employer contributions that would otherwise go to the IAA, and through premiums paid by retired members. The board monitors the plan's ability to continue to provide non-guaranteed post-retirement group health benefits. In late October 2006, notice was given to members that dental subsidies would cease as of July 31, 2007.

On January 1, 2006, retired members received a full CPI increase of 3.4%.

Plan Benefits

Group Benefit Costs as a Percentage of Employer IAA Contributions



* The forecasted decline in 2008 is the result of a voluntary dental plan replacing the currently subsidized benefit.

Pensions 1997-2006

	New Pensions During Year	Pension Terminations	In Force at End of Year	Basic Pensions Paid	Inflation Supplements Paid	Total Pensions Paid
	s Millions					
2006	1,871	305	24,202	\$526.5	\$112.5	\$639.0
2005	1,805	224	22,636	479.3	97.5	576.8
2004	1,598	276	21,055	437.5	92.2	529.7
2003	1,490	292	19,733	398.8	85.2	484.0
2002	1,542	312	18,535	361.6	78.3	439.9
2001	1,230	265	17,305	327.6	71.4	399.0
2000	831	291	16,340	305.8	64.2	370.0
1999	1,673	262	15,800	277.4	58.4	335.8
1998	1,370	291	14,389	242.2	58.8	301.2
1997	1,048	201	13,310	214.2	56.7	270.9

New Pensions, by Type 1997-2006

	Regular*	Death*	Disability	LTD to Pension	Deferred	Total
2006	1,661	22	—	108	80	1,871
2005	1,596	18	—	119	72	1,805
2004	1,407	19	1	108	63	1,598
2003	1,301	28	1	107	53	1,490
2002	1,381	24	1	73	63	1,542
2001	1,097	22	—	61	50	1,230
2000	717	13	3	67	31	831
1999	1,494	9	3	83	84	1,673
1998	1,207	19	5	54	85	1,370
1997	896	14	5	52	81	1,048

* New pensions do not include any pension continued to a beneficiary upon the death of a retired member.

Plan Benefits

Average Value of New Regular Pensions January 1, 2006 to December 31, 2006

Subdivided by years of service

Years of Service*	Number of New Regular Pensions	Average Annual Salary Base	Average Annual Pension	Average Present Value of Pensions	Total Present Value of Pensions (\$ Millions)
<10 years	61	\$ 54,000	\$ 5,600	\$ 83,000	5.1
10-14	109	60,000	13,400	194,000	21.1
15-19	162	63,000	19,700	284,000	46.0
20-24	211	63,000	25,400	377,000	79.5
25-29	366	67,000	33,700	503,000	184.1
30-34	665	70,000	42,300	652,000	433.6
35 years	87	74,000	45,900	693,000	60.3
Total	1,661	n/a	n/a	n/a	\$829.7
Average of All Pensions	n/a	\$67,000	\$33,000	\$500,000	n/a

* Years of service includes service transferred from other plans.

New Regular Pensions, by Age at Retirement

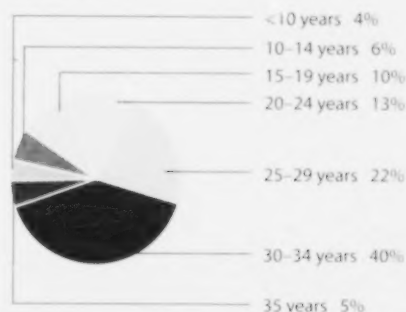
Subdivided by years of service and age at retirement

Years of Service	55	56-59	60-64	≥ 65	Total
<10 years	7	16	34	4	61
10-14	24	48	31	6	109
15-19	24	61	65	12	162
20-24	38	104	56	13	211
25-29	58	192	105	11	366
30-34	68	505	82	10	665
35 years	2	38	40	7	87
Total	221	964	413	63	1,661
Average service years	24	28	24	23	26
Average age	—	—	—	—	59

Percentage of New Regular Pensions by Age at Retirement



Percentage of New Regular Pensions by Years of Service



Plan Benefits

Termination and Refund Benefits

A terminating member who is eligible for a pension but has not yet reached age 55 may choose:

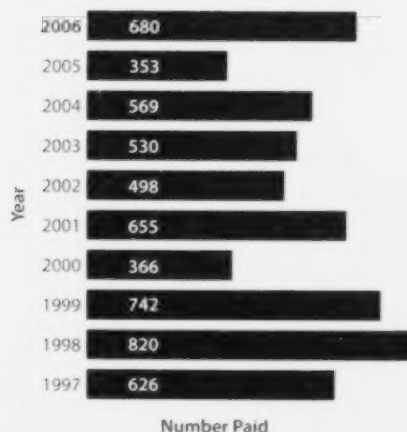
- ▶ a deferred pension payable at age 55, or
- ▶ a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or a similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in the plan in anticipation of returning to work and accruing future pension entitlements. A member under age 60 with less than two years of contributory service may also choose a refund of contributions with interest.

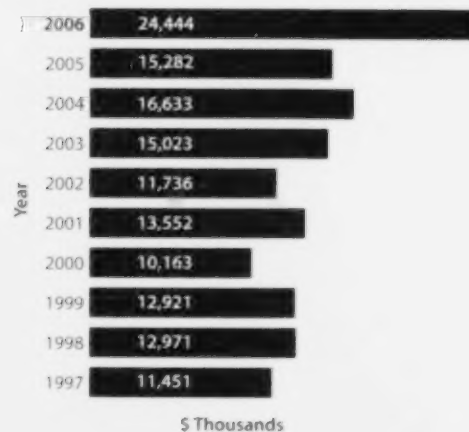
Interest compounds annually and is credited to the member's contribution balance. This balance is included in the annual *Member's Benefit Statement*. The rate of interest is governed by the applicable pension legislation and is based on average five-year bank personal term deposit rates (2006: 2.90%; 2005: 2.46%). Note, these rates do not reflect the actual earnings of the pension fund.

The number and value of termination benefits paid can vary significantly from year to year, depending on the employment environment, the type of benefit paid and the member's entitlement. The number and value of termination and refund benefits paid increased compared to last year.

Number of Termination and Refund Benefits Paid



Value of Termination and Refund Benefits Paid



Termination benefits paid include refunds of contributions and commuted value payments; deferred pensions are included in pension statistics.

Plan Benefits

Transferring Service

Transfer agreements allow pension plan members to carry pension rights from one plan to another. Members may carry their years of pensionable service and contributions to a new plan at a different place of employment if the new plan has an agreement with the Teachers' Pension Plan. In order to transfer service, the member must have left contributions on deposit or reinstated service. Service may not always be transferred on a one-to-one basis, but depends on differences in plan benefits.

Members who have made contributions to another pension plan in Canada may want to inquire about transfer agreements.

An interprovincial reciprocal transfer agreement (effective January 1, 2002), allows members of teachers' pension plans throughout Canada to transfer their service between plans.

The BC Public Sector Pension Transfer Agreement (2004) allows transfers between the Teachers' Pension Plan and the College, Municipal and Public Service pension plans and other signatories. The National Transfer Agreement allows transfers between the Teachers' Pension Plan and other public service defined benefit pension plans throughout Canada. A transfer agreement is also in place with the Government of Canada.

There were 572 reciprocal transfers-in from other pension plans and 206 transfers-out. The transfers-in totalled \$30.8 million; transfers-out totalled \$9.1 million. Transfers-in were 51% from BC public sector plans and 49% from other provinces. Transfers-out were 51% to BC public sector plans, and 49% to out-of-province plans.

Members who have made contributions to another pension plan in Canada may want to inquire about transfer agreements.

Plan Benefits

Purchase of Additional Service

Members of the plan may be able to increase their future pension benefits by purchasing periods of past service. Purchasing service means paying for periods of employment that have not already been counted as service with the plan. This service may include:

- ▶ leaves of absence (maternity, parental, or other leave)
- ▶ arrears contributions (not enrolled, but eligible to buy back missed contributions)
- ▶ other service (employment service before becoming a regular contributor), or
- ▶ reinstatements (contributions previously refunded from the plan).

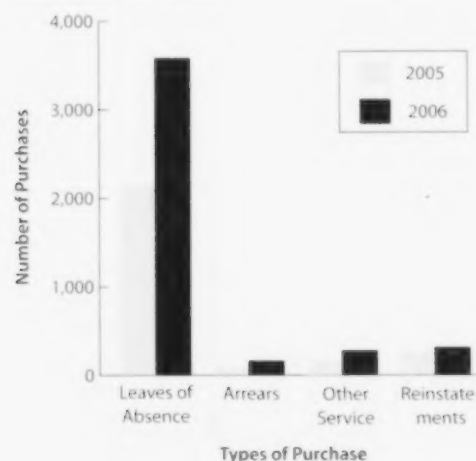
Purchase of service rules changed on April 1, 2002. There is a deadline for active members to apply to purchase historical periods of service (i.e., those ending prior to March 31, 2002) by March 31, 2007. Beginning April 1, 2007, active members may only purchase periods of service that occurred during the previous five years, provided the member applies to purchase prior to terminating employment. More information about purchasing service, including costs, is available on the plan website at tpp.pensionsbc.ca.

The number of purchases of additional service increased 72% from last year. The value of the purchases increased 140%.

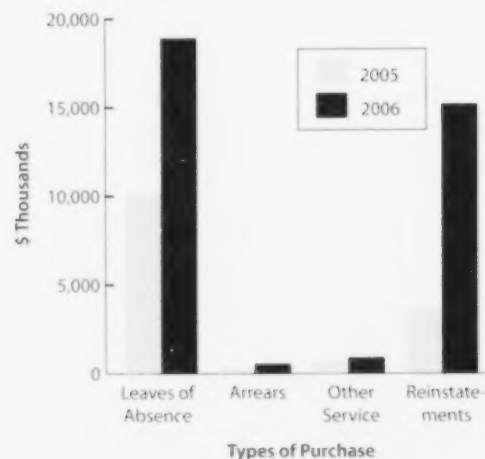
Member and Employer Purchases of Additional Service

Year ended December 31

Number of Purchases



Value of Purchases



Investments

Market Review

One of the major fiduciary roles of the board is the responsibility for overseeing the investment of approximately \$16.0 billion in assets for the long-term benefit of the plan members. The most important issue for any pension plan is long-term results, and the board's goal is to achieve consistent and steady performance over the longer term based on a disciplined approach and prudent decision making.

The board reviews its *Statement of Investment Policies and Procedures* (SIPP) annually, approves the long-term asset mix policy for the investment of assets and oversees the management of those assets through the board's investment management agent, the British Columbia Investment Management Corporation (bcIMC).

Diversification of investments is a key principle in our investment policy. Investments are held in a range of asset types (e.g., bonds, equities, real estate), industry sectors and global markets.

Report on 2006 Investment Results

The board is pleased to report that the Teachers' Basic and Inflation Adjustment Accounts experienced their fourth consecutive year of double-digit returns. The Basic Account realized a 16.2% return on its investments, while the Inflation Adjustment Account earned 16.3%.

Stocks and real estate were strong contributors to last year's results. Non-North American stocks were one of the best performing asset classes in 2006. The plan participates in five international equity pools, whose returns ranged between 13.2% and 36.6%. On a combined basis, the Basic and Inflation Adjustment Accounts earned a 25.9% return on their non-North American stock holdings.

Canadian equities generated an 18.2% return for the plan. The plan participates in four Canadian equity pools, whose returns ranged from 15.1% to 20.2%.

U.S. stocks held by the plan also produced double-digit returns averaging 15.2% in 2006. Returns ranged from 20.8% on the U.S. Value pool to 13.7% on the U.S. Active pool. In recent years, the plan has reduced its exposure to the U.S. dollar through currency hedging. In 2006, the Canadian dollar was weaker than expected and hedging had a small negative impact on the plan's U.S. equity returns.

Real estate continued to perform strongly, with the domestic pool returning 26.0% in 2006.

Fixed income investments, including mortgages, provided more modest returns in 2006. There was little difference between short-term and long-term debt securities as the returns ranged from 3.8% to 4.2%. Index-linked bond returns provided negative returns in 2006 as real interest rates rose and real return bond prices fell.

The Basic Account's 16.2% return exceeded its market benchmark of 13.3%. This added value can be attributed to tactical decisions made by the investment agent, the British Columbia Investment Management Corporation. These tactical adjustments were made within the discretionary latitude approved by the board.

The board is pleased to report that the Teachers' Basic and Inflation Adjustment Accounts experienced their fourth consecutive year of double-digit returns.

Outlook

Global economic growth is expected to slow slightly but remain solid in 2007. Nevertheless, there are numerous potential threats to economic and financial stability:

- Despite tightening of monetary conditions by some central banks, global savings and liquidity remain high, pushing up prices of financial assets.
- Expected market volatility is low and risk appetite among investors is very high.
- Still-low interest rates make financial leverage cheap.
- All these factors have the potential to create price bubbles in some asset markets.
- Corporate profit growth appears to

have peaked in the major economies, which may result in growing earnings disappointment.

- Other macroeconomic risks include high levels of indebtedness in some countries and the resulting imbalances in capital and trade flows that could cause volatility in currencies, interest rates and equity markets.

History suggests that the high recent investment returns are unlikely to continue, even if the risks outlined above do not adversely impact next year's results. Even so, the adjustment to a more sustainable path of economic growth and corporate profits is not always smooth, and financial market volatility will often increase during the transition.

Basic Account Investment Asset Mix and Performance

as at December 31, 2006

Asset Class	Approved Range (%)	Actual Assets (%)	Rate of Return (%)	Performance Benchmark* (%)
Fixed Income	20-40			
Short-term**	0-10	2.8	4.1	4.0
Mortgages	0-10	4.0	5.6	5.0
Bonds	10-25	15.8	4.1	4.0
Real Return Bonds	0-10	4.1	(2.0)	(2.9)
Equity	60-80			
Canadian Equities	10-25	16.4	18.2	20.2
U.S. Equities	10-25	17.4	15.2	15.7
International Equities	10-25	22.8	25.9	25.6
Real Estate	8-15	12.3	26.0	5.6
Private Placements	0-10	4.4	***	***

* Benchmarks are standards to compare against actual investment returns.

** Short-term includes government bonds with one- to five-year terms and money market funds.

*** Annual rate of return not applicable.

Investments

Investment Portfolio

Investments consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly

based on the fair market value of the underlying assets. In the table below, all portfolios are pooled, except Real Return Bonds, which are directly held.

Investments Held as at December 31, 2006

	Market Value (\$ Thousands)	Asset Mix Market Value (%)
Short-term		
Money Market	101,906	1
Bonds (1-5 years)	387,255	2
	489,161	3
Bonds		
Universe	1,851,068	12
Long-term	660,303	4
Real Return	645,845	4
	3,157,216	20
Canadian Equities		
Indexed	1,236,944	8
Actively Managed	1,390,925	9
	2,627,869	17
U.S. Equities		
Indexed	1,610,741	10
Actively Managed	1,148,406	7
	2,759,147	17
International Equities		
Asia	657,141	4
Europe	1,180,567	7
Europe, Australia and the Far East	1,786,806	11
	3,624,514	22
Real Estate, Mortgages, Private Placements and Foreign Currency		
Real Estate	1,968,301	12
Mortgages	631,508	4
Private Placements	720,448	5
Foreign Currency	30,271	—
	3,350,528	21
Total Investments	16,008,435	100%
2005 Comparison	13,934,738	

For further information
on the investment
portfolio, visit the
bcIMC website at:
www.bcIMC.com

Investments

Investments Held as at December 31, 2006

(Underlying investments are in pooled portfolios.)

Canadian Equities

Company	Market Value (\$ Thousands)	% of Total Canadian Equities
Royal Bank of Canada	\$ 125,673	4.8
Manulife Financial Corp	119,451	4.5
Suncor Energy Inc	111,362	4.2
Bank of Nova Scotia	103,927	4.0
Toronto Dominion Bank	98,288	3.8
Encana Corporation	94,260	3.6
Bank of Montreal	64,310	2.4
Canadian Imperial Bank of Commerce	60,539	2.3
Canadian National Railway	56,240	2.1
Petro-Canada	52,656	2.0
Total Top Ten	\$ 887,211	33.8
Total Canadian Equities	\$2,627,869	100.0

U.S. Equities

Company	Market Value (\$ Thousands)	% of Total U.S. Equities
General Electric	\$ 73,492	2.7
Exxon Mobil Corp	69,634	2.5
Citigroup Inc	59,596	2.2
Microsoft Corp	52,824	1.9
Bank of America	52,316	1.9
AT&T Inc	49,134	1.8
J.P. Morgan Chase	38,895	1.4
Procter & Gamble	37,165	1.3
Altria Group Inc	34,596	1.3
Pfizer Inc	34,576	1.3
Total Top Ten	\$ 502,627	18.2
Total U.S. Equities	\$ 2,759,147	100.0

International Equities

Company	Market Value (\$ Thousands)	% of Total International Equities
Total	\$ 62,271	1.7
Royal Dutch Shell	49,921	1.4
HSBC Holdings	43,752	1.2
BP PLC	41,780	1.2
ENI	40,418	1.1
Vodafone Group	38,594	1.1
Roche Holdings AG	38,293	1.1
Nestle SA	37,860	1.1
Novartis AG	37,068	1.0
Toyota Motor Corp	34,920	1.0
Total Top Ten	\$ 424,878	11.7
Total International Equities	\$ 3,624,514	100.0

Investments

Investments Held as at December 31, 2006

Investment Holdings (Market Value)

\$ Billions



Bonds (Market Value)



Canadian Equities (Market Value)



U.S. Equities (Market Value)



Real Estate, by Type



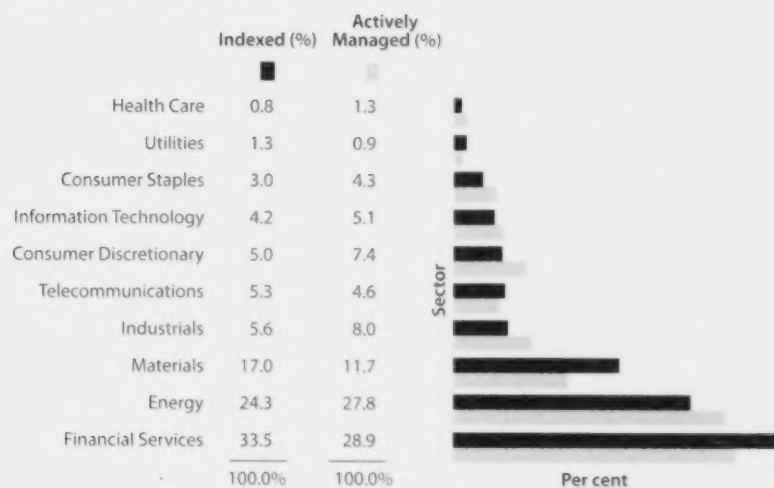
Real Estate, by Location



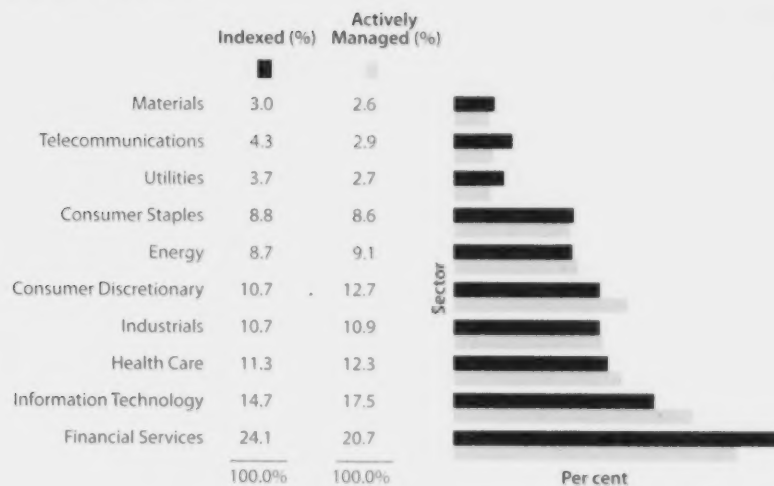
Investments

Investments Held as at December 31, 2006

Canadian Equities, by Sector



U.S. Equities, by Sector

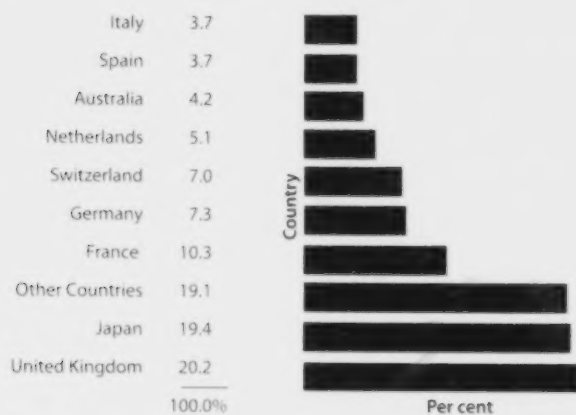


 Indexed: A portfolio of securities in approximately the same proportion as a public market index (e.g. Standard & Poor's/Toronto Stock Exchange Composite).
 Actively Managed: A portfolio of securities that is designed to outperform a public market index.

Investments

Investments Held as at December 31, 2006

International Equities, by Country (%)



Investments

Investment Performance

Market Value Rates of Return for the Year Ended December 31, 2006

	Basic Account (%)	Inflation Adjustment Account (%)	Basic Account Performance Benchmarks* (%)
Annual Rates			
2006	16.2	16.3	13.3
2005	12.9	13.3	11.6
2004	10.4	10.8	10.5
2003	13.0	14.5	14.5
2002	-5.5	-3.3	-5.7
Five-year Annualized Rates**			
2006	9.1	10.1	8.6
2005	5.4	6.4	5.1
Ten-year Annualized Rates			
2006	8.8	9.2	8.5
2005	9.1	9.5	8.9
2006 Annual Rates by Investment Category			
			Basic Account Performance Benchmarks*
Short-term			
Money Market	4.1	4.1	4.0 SCI 91 Day T-Bill
Bonds	3.9	3.9	3.9 SCI Short-term Government Bond
Bonds			
Universe	4.2	4.2	4.1 SCI Universe Bond
Long-term	3.8	3.8	3.9 SCI Government Long-term Bond
Real Return	(2.0)	(2.6)	(2.9) SCI Real Return Bond
Canadian Equities			
Actively Managed	15.1	15.1	20.2 Active Canadian Benchmark
Indexed	20.2	20.2	20.2 S&P/TSX Equity
Enhanced	18.6	18.6	20.2 S&P/TSX Equity
Strategic Infrastructure	18.5	18.5	20.2 S&P/TSX Equity
U.S. Equities			
Actively Managed	13.7	13.7	15.7 R 1000
Indexed	15.7	15.7	15.7 S&P 500
Value	20.8	20.8	20.7 S&P Citigroup value
Enhanced	15.6	15.6	15.7 R1000
International Equities			
Asia	13.2	13.2	11.8 MSCI Pacific Net
Europe	35.0	35.0	33.2 MSCI Europe Net
Europe, Australia and Far East	25.6	25.6	25.9 MSCI Europe, Australasia, Far East Net
Real Estate	26.0	26.0	5.6 CPI + 4%
Mortgages			
Fixed-term	5.1	5.1	5.0 SCI Short-term Bond + 1%
Construction	7.3	7.3	5.1 SCI One-year T-Bill + 1%
Specialty	6.4	6.0	6.6 SCI One-year T-Bill + 2.5%

* Benchmarks are standards to compare against actual investment returns.

** The five-year annualized rate of the Basic Account is the net earned rate of the fund. An annualized rate means the rate for a five or ten-year period converted into the equivalent annual rate.

Performance Benchmark Indices Abbreviations

CPI	=	Consumer Price Index
MSCI	=	Morgan Stanley Capital International
R	=	Russell
SCI	=	Scotiabank Capital Inc.
S&P	=	Standard & Poor's
S&P/TSX	=	Standard & Poor's/Toronto Stock Exchange

Source of annual rates: British Columbia Investment Management Corporation

Audit Committee

Membership on the committee includes two nominees from each of the boards of the College, Municipal, Public Service, and Teachers' pension plans. All nominees must be ratified by all the boards. The committee must include at least two trustees who understand generally accepted accounting principles (GAAP), internal controls, and audit committee functions. The committee must meet at least three times a year. In addition to its role of financial oversight through monitoring and reporting, the committee also evaluates its own performance annually through an established procedure.

The mandate of the Audit Committee is to act on behalf of, and to assist the board, to provide for:

- a timely and cost-effective system of accounting and reporting
- financial statements conforming with generally accepted accounting principles
- an independent audit of the financial statements
- an annual report with audited financial statements

The committee will accomplish its mandate to provide financial oversight by:

- monitoring and reporting to the boards on the integrity of reporting, internal controls, and compliance
- monitoring and reporting on the independence and performance of the external auditors
- monitoring and reporting on risk management as it affects financial reporting
- recommending the selection and compensation of external auditors
- addressing any matter referred to the committee by one or more of the four boards

Financial Health

The Teachers' Pension Plan is financially sound. The fund holds a diversified portfolio of debt and equity investments that offer consistent and steady performance over the long term.

Every three years an independent actuary assesses the financial health of the plan and the adequacy of the contribution rates for funding the plan. At the most recent actuarial valuation as at December 31, 2005, the Basic Account had an unfunded liability for basic pension benefits of \$904 million. The funded portion of the liability is more than 94% of total liabilities for basic pension benefits. An unfunded liability means that there is a shortfall between benefits promised and assets available to pay for these benefits, whereas a surplus means

there are more than enough funds to meet the basic benefits.

On the recommendation of the actuary, the board determined that an increase in contribution rates was necessary for the pension plan to maintain its financial viability. Consequently, plan member and employer contributions will each increase by 1.61% of salaries effective July 1, 2007, to pay down this unfunded liability over the ensuing 15 year period. (See "Contributions" section for contribution rate information.)

The next valuation will be as at December 31, 2008.

Actuarial Valuation History as at December 31

\$ Millions

	Basic Pension Benefits Unfunded Liability		
	2005	2002	1999
For Funding Purposes*	\$904.1	\$381.8	\$454.4
Ratio of Unfunded Liability to Covered Payroll*	38%	17%	21%
For Accounting Purposes to December 31	\$1,238.1	\$551.8	\$494.0

* Assuming contributions continue at rates in effect at the valuation date.

Funding of the Total Basic Benefit Liability
as at December 31



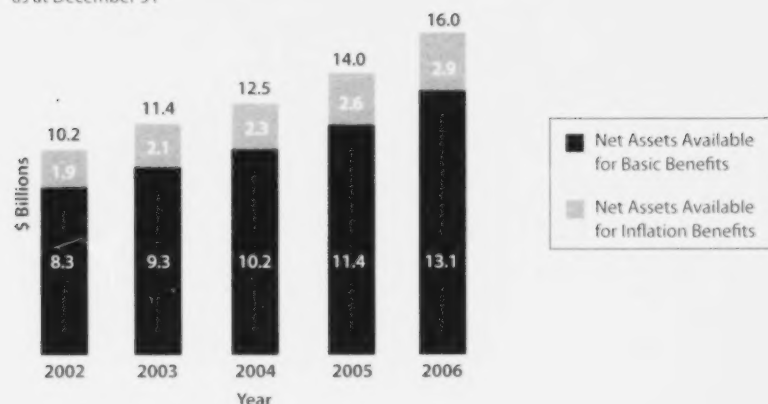
Five-year Financial Summary

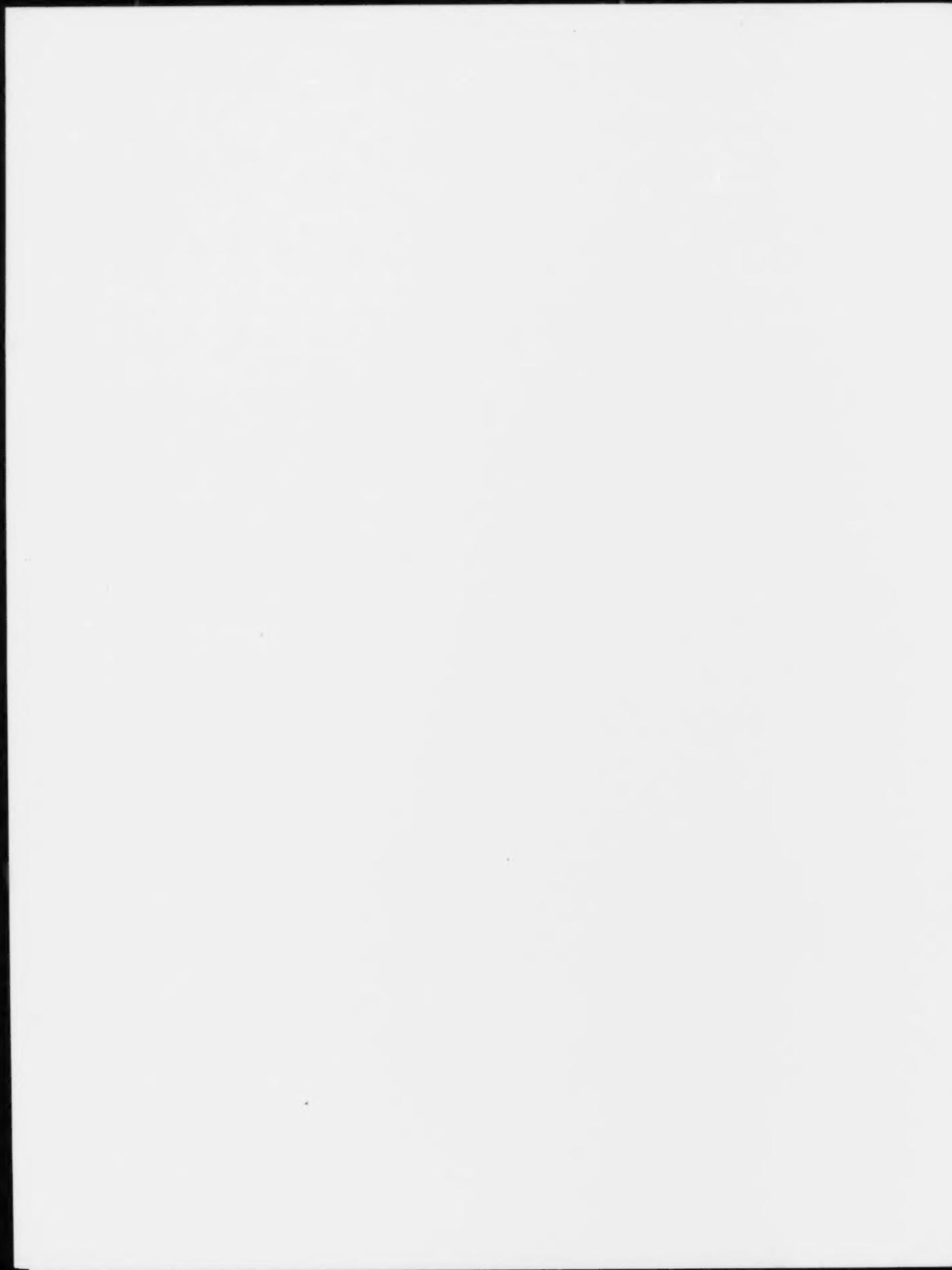
\$ Thousands

For the year ended December 31	2006	2005	2004	2003	2002
Increase (Decrease) in Assets					
Total Investment Income (Loss)*	\$2,262,231	\$1,632,275	\$1,200,821	\$1,341,143	\$ (535,720)
Contributions					
Members	200,156	179,258	183,215	177,820	175,201
Employers	274,358	245,969	252,659	245,606	238,915
Provincial Government	20,000	—	—	—	—
Transfers from Other Plans	30,833	23,281	27,300	32,581	8,515
Total Increase (Decrease) in Assets	2,787,578	2,080,783	1,663,995	1,797,150	(113,089)
Decrease in Assets					
Pension Benefits	639,031	576,834	529,672	484,022	439,897
Termination Benefits	24,443	15,282	16,633	15,023	11,736
Transfers to Other Plans	9,141	10,023	15,325	18,508	18,237
Retired Member Group Benefits	15,680	13,361	12,019	13,138	20,124
Investment and Administration Costs*	25,640	22,803	20,073	20,540	18,853
Total Decrease in Assets	713,935	638,303	593,722	551,231	508,847
Increase (Decrease) in Net Assets	2,073,643	1,442,480	1,070,273	1,245,919	(621,936)
Net Assets Available for Benefits at Beginning of Year	\$ 13,960,557	\$12,518,077	\$11,447,804	\$10,201,885	\$10,823,821
Net Assets Available for Benefits at End of Year	\$ 16,034,200	\$ 13,960,557	\$12,518,077	\$11,447,804	\$10,201,885
Investment and Administration Costs*					
	As a Percentage of Net Assets				
Investment Management*	0.20%	0.17%	0.15%	0.15%	0.16%
Benefit Administration	0.05%	0.06%	0.05%	0.07%	0.07%

* External investment management costs incurred in the investment pooled funds by wholly owned corporations of \$13.8 million (2005—\$8.4 million; 2004—\$5.5 million; 2003—\$4.1 million; 2002—\$4.5 million) are not included in investment and administration costs, but are included in investment management costs as a percentage of net assets.

Net Assets Available for Benefits
as at December 31





Financial Statements

PENSION CORPORATION

TEACHERS' PENSION PLAN

ADMINISTRATIVE AGENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

Executive Offices

Mailing Address:
PO Box 9460
Victoria BC
V8W 9V8

Location:
2995 Jutland Road
Victoria BC
V8T 5J9

Phone:
250 387-0201
1 800 663-8837
Fax:
250 953-0479

The financial statements of the Teachers' Pension Plan (Plan) were prepared by the British Columbia Pension Corporation (Corporation), the administrative agent for the Teachers' Pension Board of Trustees (Board) of the Plan. The Board is responsible for having annual financial statements prepared in accordance with Canadian generally accepted accounting principles. The Corporation prepares the financial statements on the Board's behalf and is responsible for the integrity and fairness of the data presented, including significant accounting judgments and estimates. This responsibility includes selecting appropriate accounting policies consistent with generally accepted accounting principles in Canada. Other financial information contained in the Teachers' Pension Plan Annual Report conforms to these financial statements.

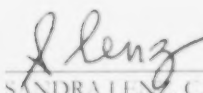
In discharging its responsibility for the integrity and fairness of the financial statements, the Corporation maintains the internal controls necessary to provide reasonable assurance that relevant and reliable financial information is produced and that assets are properly safeguarded.

The firm of Eckler Partners Ltd. has been appointed the independent consulting actuary to the Plan by the Board. The role of the actuary is to complete an actuarial valuation of the Plan in accordance with accepted actuarial practice; the results of the valuation are included in the financial statements.

The firm of KPMG LLP has been appointed the independent auditor to the Plan by the Board. The role of the auditor is to perform an independent audit of the financial statements of the Plan in accordance with Canadian generally accepted auditing standards. The resulting audit opinion is set out in the Auditors' Report attached to these financial statements.



RON MILLARD, FCGA
Director, Finance
British Columbia Pension Corporation



SANDRA LENZ, CA
Chief Financial Officer
British Columbia Pension Corporation

April 10, 2007



KPMG LLP
Chartered Accountants
St. Andrew's Square II
800 - 730 View Street
Victoria BC V8W 3Y7

Telephone (250) 480-3500
Fax (250) 480-3539
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Teachers' Pension Plan

We have audited the statement of net assets available for benefits of the Teachers' Pension Plan as at December 31, 2006 and the statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the board of trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Plan as at December 31, 2006 and the results of its operations and changes therein for the year then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads 'KPMG LLP'.

Chartered Accountants

Victoria, Canada

April 10, 2007

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.



TEACHERS' PENSION PLAN
STATEMENT OF NET ASSETS AVAILABLE FOR BENEFITS
 (\$ Thousands)

As at December 31	2006	2005
ASSETS		
Investments (Note 3)	\$16,008,435	\$13,934,738
Receivables		
Members' contributions	13,002	8,734
Employers' contributions	19,268	12,607
Accrued investment income	1,664	1,648
Due from sale of investments	8,930	10,077
	<u>42,864</u>	<u>33,066</u>
Prepaid expenses	1,432	1,199
Cash	5,291	4,663
Total Assets	\$16,058,022	\$13,973,666
LIABILITIES		
Payable for purchase of investments	8,930	-
Accounts payable and accrued expenses	14,892	13,109
Total Liabilities	23,822	13,109
NET ASSETS AVAILABLE FOR BENEFITS	\$16,034,200	\$13,960,557

All accompanying notes are an integral part of these financial statements including:

- Actuarial Valuation of the Basic Account for Funding Purposes (Note 7)
- Actuarial Valuation of the Basic Account for Accounting Purposes (Note 8)
- Commitments (Note 11)

John W. Cook, F.C.I.A.
 Chair, Teachers' Pension Board of Trustees

Carolyn Prellwitz
 Trustee,
 Teachers' Pension Board of Trustees

Tom Vincent
 Trustee,
 Teachers' Pension Board of Trustees



TEACHERS' PENSION PLAN
STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
 (\$ Thousands)

For the year ended December 31	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Totals	
				2006	2005
INCREASE IN ASSETS					
Investment income (Note 4)	\$ 1,855,899	\$ 406,332	\$ -	\$ 2,262,231	\$ 1,632,275
Contributions (Note 5)					
Members'	150,616	49,538	2	200,156	179,258
Employers'	246,200	11,936	16,222	274,358	245,969
Provincial government	-	20,000	-	20,000	-
	396,816	81,474	16,224	494,514	425,227
Transfers from other plans	23,459	7,374	-	30,833	23,281
Total Increase in Assets	2,276,174	495,180	16,224	2,787,578	2,080,783
DECREASE IN ASSETS					
Pension benefits					
Contributory	526,339	-	164	526,503	479,280
Indexing supplements	112,512	-	16	112,528	97,554
	638,851	-	180	639,031	576,834
Termination and refund benefits	15,648	8,795	-	24,443	15,282
Transfers to other plans	7,112	2,029	-	9,141	10,023
Retired member group benefits (Note 10)	-	-	15,680	15,680	13,361
Investment and Administration costs (Note 9)	22,164	3,112	364	25,640	22,803
Total Decrease in Assets	683,775	13,936	16,224	713,935	638,303
INCREASE IN NET ASSETS					
BEFORE TRANSFERS	1,592,399	481,244	-	2,073,643	1,442,480
Account transfers (Note 6)	181,891	(181,891)	-	-	-
INCREASE IN NET ASSETS	1,774,290	299,353	-	2,073,643	1,442,480
NET ASSETS AVAILABLE FOR BENEFITS					
AT BEGINNING OF YEAR	11,339,709	2,620,848	-	13,960,557	12,518,077
NET ASSETS AVAILABLE FOR BENEFITS					
AT END OF YEAR	\$ 13,113,999	\$ 2,920,201	\$ -	\$ 16,034,200	\$ 13,960,557

Supplemental Benefits Account (Note 10)

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN

The Teachers' Pension Plan (Plan) is a jointly trustee pension plan governed by a Joint Trust Agreement (Agreement). Joint trusteeship was established on April 5, 2001. The partners to the Agreement are the provincial government and the B.C. Teachers' Federation (Partners). The Agreement describes the composition, appointment, powers, functions and duties of the Teachers' Pension Board of Trustees (Board) and provides the authority for the Board to make Plan rules. The following brief description of the Plan is provided for general information only. For more information please refer to the Agreement and the Plan rules.

a) General

The Plan is open to all certified teachers (including teachers-on-call), principals and vice-principals, superintendents, assistant superintendents, associated professionals and certified professionals who are appointed by a board of school trustees in the British Columbia public school system.

b) Roles and Responsibilities

The Board of Trustees

The Partners are responsible for directing amendments to the Plan, if certain conditions are met, and for resolving trustee disputes. The Board consists of up to eleven members. The Partners appoint ten trustees representing Plan members and Plan employers. The other trustees appoint the eleventh member, the chair. The Board is fully responsible for the management of the Plan, including investment of the assets and administration of the Plan. The Board may amend the Plan rules as long as changes can be funded by pension fund surpluses or are cost-neutral to the Plan (subject to transitional funding provisions in Note 7). Unless required to ensure compliance with regulatory enactments applicable to the Plan, Plan rule changes that result in contribution rate changes can only be initiated by the Partners.

British Columbia Pension Corporation (Pension Corporation)

The Pension Corporation provides benefit administration services as an agent of the Board.

British Columbia Investment Management Corporation (bcIMC)

bcIMC provides investment management services as an agent of the Board.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

c) Contributions

Basic Account

Members contribute to the Basic Account 5.55% (7.16% effective July 1, 2007) of salaries up to and including the Canada Pension Plan's Maximum Pensionable Earnings (YMPE) (\$42,100 in 2006) and 7.05% (8.66% effective July 1, 2007) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7 and 10).

Employers contribute to the Basic Account 9.55% (11.16% effective July 1, 2007) of salaries up to and including the YMPE and 11.05% (12.66% effective July 1, 2007) of salaries over the YMPE, less amounts allocated to the Supplemental Benefits Account (Notes 5, 7 and 10).

Inflation Adjustment Account

Members contribute 2% of salaries to the Inflation Adjustment Account. Employers contribute 1.13% of salaries to the Inflation Adjustment Account, less amounts allocated to the Supplemental Benefits Account (Notes 5 and 10).

d) Pension Benefits

All members with two years of contributory service are eligible for a pension benefit.

Members are eligible for unreduced pension benefits:

- at age 65;
- at age 60, with at least 2 years contributory service; or
- at age 55 or older, with age plus years of service totaling 90 or more.

Other retiring members have a reduction formula applied to their pensions.

The defined basic plan benefit is integrated with the Canada Pension Plan (CPP). As a result, the Plan provides an unreduced benefit of 1.3% of pensionable earnings up to the YMPE and 2% of pensionable earnings over the YMPE for each year of pensionable service (to a maximum of 35 years). Pensionable earnings are based on the member's five-year highest average salary (HAS).

The Plan also provides a bridge benefit payable to age 65 (or the date of death, if earlier). The bridge benefit is 0.7% of the lesser of YMPE or the HAS.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

d) Pension Benefits (continued)

Increases to pension payments may be provided each January 1 in accordance with the indexing provisions of the Plan. These increases are based on the annual increase in the Canada Consumer Price Index (CPI) as at the previous September 30, subject to availability of funds in the Inflation Adjustment Account (Notes 6 and 7b).

At January 1, 2006, retired members received a full CPI increase of 3.4% (2005: 1.8%). At January 1, 2007, retired members will receive a full CPI increase of 0.7%.

e) Termination and Portability Benefits

A terminating member who is eligible for a pension, but has not reached the earliest retirement age, may choose:

- a deferred pension; or,
- a transfer of the commuted value of the pension benefit (the minimum value is the member's contributions with interest) to a locked-in registered retirement savings plan or similar tax-sheltered plan.

A terminating member may also choose to leave monies on deposit in anticipation of future entitlements, or if under 60 with less than two years of contributory service, may choose a refund of contributions with interest.

Where there are portability arrangements between the Plan and other pension plans, members may be able to transfer certain pension rights.

f) Other Benefits

Disability and survivor benefits are also available under the Plan. Supplemental benefits (Note 10) may also be funded from the Supplemental Benefits Account. Under certain circumstances, members may also reinstate or purchase additional service to increase their future pension benefits.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

1. DESCRIPTION OF THE TEACHERS' PENSION PLAN (continued)

g) Income Taxes

The Plan is a Registered Pension Plan (RPP) as defined in the *Income Tax Act (Canada)* except for any supplemental benefits (Note 10) which are funded in addition to the RPP. The Plan is not subject to income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presentation

These financial statements are prepared on the going concern basis and present the Plan as a separate financial reporting entity, independent of the Plan's contributing employers and members, and independent of any associated retired member group benefit plans. The Statement of Net Assets Available for Benefits shows the assets under control of the trustees of the Plan, and does not purport to show whether these assets are adequate to meet the obligations of the Plan. The actuarial valuation of the basic account for funding purposes is included in Note 7.

Certain comparative figures have been reclassified to conform to the current year's presentation.

b) Investments

Investments are stated at fair value and consist primarily of direct ownership in units of pooled investment portfolios. The units of pooled investment portfolios are valued regularly based on the value of the underlying assets. Where available, fair values of these assets are based on public market prices or quotations from investment dealers. Where public market prices or quotations are not available, fair values are derived using valuation methods such as discounted cash flows, earnings multiples, appraisals, prevailing market rates for instruments with similar characteristics and other pricing models, as appropriate. The fair value of derivative contracts is included in the fair value of pooled investment portfolios.

Investment purchases and sales are recorded on the trade date (the date upon which the substantial risks and rewards of ownership have been transferred).

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Investment Income

Income from investments is recorded on the accrual basis and represents pooled investment portfolio income attributable to the Plan as a unit holder. The current period change in fair value includes realized and unrealized gains and losses which are included in investment income.

Within the pools, dividends are accrued on the ex-dividend date. Income and expenses from derivative contracts are recognized on the accrual basis. Gains and losses on derivative contracts are recognized concurrently with changes in their fair values.

d) Use of Estimates

The preparation of financial statements, in conformity with Canadian generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in assets during the period. Significant areas requiring the use of management estimates relate to the valuation of investments and the estimate of the actuarial position of the Basic Account. Actual results could differ from those estimates. •

3. INVESTMENTS (FAIR VALUE)

	2006			2005	
	Basic Account	Inflation Adjustment Account	Total	Total	
	(\$ Thousands)				
Short-term	\$ 364,686	\$ 124,475	\$ 489,161	\$ 407,525	
Canadian Bonds	2,598,619	558,597	3,157,216	3,073,317	
Canadian Equities	2,153,157	474,712	2,627,869	3,412,552	
U.S. Equities	2,264,867	494,280	2,759,147	2,021,283	
International Equities	2,982,555	641,959	3,624,514	2,595,848	
Foreign Currency	24,544	5,727	30,271	23,547	
Mortgages	518,396	113,112	631,508	507,325	
Real Estate	1,615,891	352,410	1,968,301	1,477,491	
Private Placements	571,426	149,022	720,448	415,850	
	\$ 13,094,141	\$ 2,914,294	\$ 16,008,435	\$ 13,934,738	

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

3. INVESTMENTS (FAIR VALUE) (continued)

Plan investments consist primarily of direct ownership in units of pooled investment portfolios managed by bcIMC. Each unit gives the holder a proportionate share in the net assets of the pooled investment fund. One or more pooled investment portfolios exist for different types of investments, such as short-term investments, Canadian bonds and Canadian equities.

Short-term investments consist of Canadian and U.S. money market securities, such as treasury bills, with maturities of 15 months or less and short-term bonds with one to five year terms. Canadian bonds consist of government and corporate bonds and debentures. Equities consist primarily of publicly traded shares, and, in the case of international equities, refer to investments in the markets of Europe and Asia, as well as key emerging markets. The foreign currency pooled fund engages in the buying and selling of foreign currency financial instruments to enhance returns through the active management of foreign currency exposure.

Mortgages consist mainly of Canadian construction, commercial and multi-family residential mortgages. Real estate investments consist mainly of diversified Canadian income-producing properties. Private placements refer to Canadian and international long-term debt or equity investments made outside of the structure of public markets (Note 11).

The mortgages are secured by real estate and are valued using current market yields. Real estate is valued quarterly by bcIMC's external real estate investment managers and, at least once every ten to eighteen months, by accredited independent appraisers to establish current market values. Private placements are valued annually based on audited financial statements from private placement external managers.

The Plan also uses derivative contracts held indirectly through various pooled investment portfolios to enhance return, manage exposure to interest rate and foreign currency risk, and for asset mix management purposes. Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates, or exchange rates.

Basic Account Canadian bonds of \$11.8 million (2005: \$12.4 million) are being held in a collateral account for a future investment opportunity (Note 11).

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

4. INVESTMENT INCOME

	2006		2005	
	Income Allocation	Current Period Change In Fair Value	Total	Total
	(\$ Thousands)			
Basic Account				
Short-term	\$ 17,094	\$ 2,078	\$ 19,172	\$ 2,323
Canadian Bonds	110,160	(37,717)	72,443	229,589
Canadian Equities	45,510	329,904	375,414	533,724
U.S. Equities	49,065	254,822	303,887	113,597
International Equities	63,994	546,301	610,295	218,868
Foreign Currency	908	1,247	2,155	125
Mortgages	22,077	3,666	25,743	25,606
Real Estate	20,731	336,335	357,066	172,321
Private Placements	3,122	86,602	89,724	27,663
	<u>\$ 332,661</u>	<u>\$ 1,523,238</u>	<u>\$ 1,855,899</u>	<u>\$ 1,323,816</u>
Inflation Adjustment Account				
Short-term	\$ 4,366	\$ 210	\$ 4,576	\$ 1,044
Canadian Bonds	21,910	(8,575)	13,335	52,890
Canadian Equities	8,971	72,945	81,916	123,661
U.S. Equities	10,024	56,479	66,503	21,976
International Equities	12,730	118,791	131,521	49,975
Foreign Currency	204	291	495	35
Mortgages	4,256	766	5,022	5,675
Real Estate	4,278	74,591	78,869	38,863
Private Placements	2,029	22,066	24,095	14,340
	<u>\$ 68,768</u>	<u>\$ 337,564</u>	<u>\$ 406,332</u>	<u>\$ 308,459</u>
Total Investment Income	<u>\$ 401,429</u>	<u>\$ 1,860,802</u>	<u>\$ 2,262,231</u>	<u>\$ 1,632,275</u>

Investment income represents pooled investment portfolio income attributable to the Plan, as a unitholder, and as calculated by bcIMC, and interest income from directly held investments. All income earned within a pooled investment portfolio is reinvested within the portfolio.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

5. CONTRIBUTIONS

	2006			2005	
	Basic Account	Inflation Adjustment Account	Supplemental Benefits Account	Total	Total
	(\$ Thousands)				
Members' contributions					
Regular	\$ 140,634	\$ 47,057	\$ 2	\$ 187,693	\$ 171,012
Arrears	158	56	-	214	98
Purchase of service	269	97	-	366	298
Leave of absence	5,746	2,055	-	7,801	4,199
Reinstatement	3,809	273	-	4,082	3,651
	<u>\$ 150,616</u>	<u>\$ 49,538</u>	<u>\$ 2</u>	<u>\$ 200,156</u>	<u>\$ 179,258</u>
Employers' contributions					
Regular	\$ 235,475	\$ 10,660	\$ 542	\$ 246,677	\$ 226,044
ERIP contributions	37	15	-	52	-
Arrears	291	35	-	326	199
Purchase of service	463	55	-	518	465
Leave of absence	9,934	1,171	-	11,105	5,900
Supplemental benefits	-	-	15,680	15,680	13,361
	<u>\$ 246,200</u>	<u>\$ 11,936</u>	<u>\$ 16,222</u>	<u>\$ 274,358</u>	<u>\$ 245,969</u>
Provincial government	-	20,000	-	20,000	-
Total Contributions	<u>\$ 396,816</u>	<u>\$ 81,474</u>	<u>\$ 16,224</u>	<u>\$ 494,514</u>	<u>\$ 425,227</u>

Member and employer contributions are as defined under the Plan rules.

The provincial government made a one-time contribution of \$20 million to the Inflation Adjustment Account on July 15, 2006 as a result of an agreement between the Partners.

6. ACCOUNT TRANSFERS

	2006		2005	
	Basic Account	Inflation Adjustment Account	Basic Account	Inflation Adjustment Account
	(\$ Thousands)			
Present value of current indexing supplements	\$ 180,057	\$ (180,057)	\$ 87,775	\$ (87,775)
Indexing of deferred pensions	1,834	(1,834)	2,524	(2,524)
Excess interest	-	-	-	-
	<u>\$ 181,891</u>	<u>\$ (181,891)</u>	<u>\$ 90,299</u>	<u>\$ (90,299)</u>

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

6. ACCOUNT TRANSFERS (continued)

The Inflation Adjustment Account (IAA) is a separate account that is maintained for funding current and future indexing supplements. The IAA is funded through a portion of ongoing contributions from employers and members (Note 1c), from investment income earned on its own assets, and from excess interest earned in the Basic Account.

All pension payments are made from the Basic Account. Each year, when members' pension payments are adjusted for current indexing, monies are transferred from the IAA to the Basic Account to cover the present value of all future payments arising from the current indexing supplements.

When a deferred pension begins to be paid, the present value of the cost of living changes during the deferral period is also transferred from the IAA to the Basic Account.

There have been no excess interest transfers to the IAA for the years ended December 31, 2002 through 2006. Excess interest is based on investment income earned on those Basic Account assets required for pensions currently being paid, approximately \$6.3 billion of assets for 2006 (2005: \$5.4 billion). The excess interest rate of return is determined by taking the difference between the actual five-year annualized market rate of return (9.1%) and the rate of return used by the actuary (6.85%) in valuing the Plan's liabilities. The calculated excess interest rate of return for 2006 was 2.25% (2005: -1.85%). The cumulative negative excess interest amount of \$404.1 million will be offset against future positive excess interest amounts before positive excess interest transfers will resume.

	2006	2005
	(\$ Millions)	
Cumulative negative excess interest, beginning of year	\$ (499.3)	\$ (378.2)
Interest applied to beginning of year amount	(45.5)	(20.4)
Current year (negative) excess interest	140.7	(100.7)
Cumulative negative excess interest, end of year	\$ (404.1)	\$ (499.3)

7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES

a) Basic Account

An actuarial valuation of the Plan's assets and pension obligations is performed at least every three years by an independent actuary to determine an appropriate combined employer and member contribution rate to fund the Basic Account. For this purpose, the Plan's actuary values both accrued assets and accrued benefit obligations to the financial statement date, and contributions and benefits for future service. The actuary's calculated contribution rate is based on the entry-age method. This method produces the level rate of the member and employer contributions sufficient to provide benefits for the average future new entrants to the Plan.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

**7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES
(continued)**

a) Basic Account (continued)

The most recent full actuarial valuation for funding purposes was prepared as at December 31, 2005 by Eckler Partners Ltd. This valuation disclosed an unfunded actuarial liability (UAL) for basic pension benefits of \$904 million (2002: \$382 million UAL), assuming future contributions at the contribution rates in effect at the valuation date. The following long-term actuarial assumptions were used:

- annual investment return 6.85% (2002: 7.25%)
- annual salary escalation rate 4.10% (2002: 4.75%)

The main changes between the 2002 and 2005 valuation are as follows:

	<u>(\$ Millions)</u>
Unfunded actuarial liability as at December 31, 2002	\$ (382)
Interest on unfunded liability	(89)
Investment income lower than actuarial rate of return	(803)
Changes in investment and salary assumptions	(533)
Other actual experience different than expected	(68)
Contributions above normal cost	148
Salary increases lower than assumed	533
July 2004 contribution rate increase	290
Unfunded actuarial liability as at December 31, 2005	<u>\$ (904)</u>

The next full actuarial valuation will be at December 31, 2008 for inclusion in the December 31, 2009 financial statements.

The Joint Trust Agreement (Agreement) specifies a transitional period during which the rebalancing of member and employer contribution rates and specified benefit improvements will be achieved. During this transitional period, if an actuarial valuation indicates that increased basic account contribution rates are required to fully fund the Plan on a going-concern basis, the increase is shared equally by members and employers.

Based on the results of the 2005 actuarial valuation, the actuary determined that an increase in contribution rates was necessary for the Plan to maintain its proper financing. Therefore, the trustees decided that, effective July 1, 2007 member and employer contribution rates will each increase by 1.61% of salaries, as recommended by the actuary (Note 1c).

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

**7. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR FUNDING PURPOSES
(continued)**

a) Basic Account (continued)

Also during this transitional period, if surplus assets or actuarial gains occur, they will be used to achieve the following objectives in order of priority:

- Eliminating any unfunded liability
- Rebalancing member and employer contribution rates
- Providing specified benefit improvements

After the transitional objectives have been achieved, if an actuarial valuation indicates that increased basic contribution rates are required, the increase must be shared equally by members and employers. The Agreement also describes the manner in which the Board can elect to apply surplus assets.

b) Inflation Adjustment Account (IAA)

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account. As indexing is granted to retired members, full funding for that granted indexing, on a net present value basis, is transferred from the IAA to the Basic Account, from which the pensions are paid. There is no minimum level of indexing required to be paid under the Plan rules, nor is there any Plan provision to fund the IAA to any minimum level of future potential indexing.

The Board monitors the performance of the IAA and, at least annually, reviews a sensitivity analysis of the projected impact on the IAA of possible differing future economic trends. Such factors include inflation rates, real wage growth rates, real investment rates of return and group health benefits costs. This sensitivity analysis assists the Board to identify scenarios, some years in advance of their possible occurrence, when the IAA assets may cease to grow and therefore, when the Plan may not be able to grant full indexing of benefits. As long as there are contributions to the IAA, there will be some measure of indexing protection for retired members.

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES

An actuarial valuation is performed at least every three years. Its primary objective is to assess the financial position and adequacy of funding for the Basic Account of the Plan as described in Note 7a. As part of the actuarial valuation, the actuary also calculates values, for accounting purposes, of the Basic Account assets as at, and pension liabilities accrued to, the financial statement date. For this purpose, contributions and benefits for future service are not included, in contrast to their inclusion in the valuation for funding purposes as described in Note 7a.

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES (continued)

The Basic Account is the account from which the defined basic benefits of the Plan are paid. It is also the account from which any indexing that has been granted to retired members is paid. Future indexing benefits are not guaranteed within the Plan provisions and are granted to retired members only to the extent that sufficient assets are available from the IAA to fund those benefits. As indexing is granted, the Basic Account receives from the IAA the present value funding necessary for the indexing granted. Therefore, accrued basic pension benefits for valuation purposes includes the liability for all indexing granted to the date of the valuation, but not for as yet unknown future indexing.

The latest full valuation was made as at December 31, 2005, by Eckler Partners Ltd. The results were as follows:

As at December 31	2005	2002
	(\$ Millions)	
Net assets available for basic pension benefits	\$ 11,340	\$ 8,275
Five year market value smoothing adjustment	(890)	1,071
Net actuarial assets for basic pension benefits	10,450	9,346
Liability for accrued basic pension benefits	(11,688)	(9,898)
Unfunded Actuarial Liability (UAL)	<u>\$ (1,238)</u>	<u>\$ (552)</u>

The next full actuarial valuation will be at December 31, 2008 for inclusion in the December 31, 2009 financial statements.

The liability for accrued basic pension benefits at the valuation date is determined using the projected benefit method prorated on service. Net assets are valued using five-year market value smoothing. For accounting purposes, an estimate of the actuarial position between valuations is required. This estimate, called an extrapolation, has been made to December 31, 2006, using the following long-term actuarial assumptions:

- annual investment return 6.85% (2002: 7.25%)
- annual salary escalation rate 4.10% (2002: 4.75%)

TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES
(continued)

On this basis, the extrapolated value of the UAL at December 31, 2006 is as follows:

Extrapolated Actuarial Assets Available for Basic Pension Benefits
As at December 31

	2006	2005
	(\$ Millions)	
Extrapolated actuarial assets, beginning of year	\$ 11,252	\$ 10,623
December 31, 2005 valuation adjustment	(802)	-
Extrapolated actuarial assets, beginning of year	10,450	10,623
Account transfers	182	90
Current year contributions	397	355
Net transfers from (to) other plans	16	10
Pension, termination and refund benefits	(655)	(587)
Administration costs	(7)	(7)
Interest accrued on assets	720	768
Extrapolated actuarial assets, end of year	<u>\$ 11,103</u>	<u>\$ 11,252</u>

Extrapolated Actuarial Liability for Accrued Basic Pension Benefits
As at December 31

	2006	2005
	(\$ Millions)	
Extrapolated actuarial liability for accrued basic pension benefits, beginning of year	\$ 11,803	\$ 11,185
December 31, 2005 valuation adjustment	(115)	-
Extrapolated actuarial liability for accrued basic pension benefits, beginning of year	11,688	11,185
Account transfers	182	90
Current period benefit cost	349	304
Net transfers from (to) other plans	16	10
Pension, termination and refund benefits	(655)	(587)
Administration costs	(7)	(7)
Interest accrued on liability	803	808
Extrapolated liability for accrued basic pension benefits, end of year	<u>\$ 12,376</u>	<u>\$ 11,803</u>

Extrapolated Unfunded Actuarial Liability (UAL),
December 31

	<u>\$ (1,273)</u>	<u>\$ (551)</u>
Fair value of Basic Account net assets available for benefits	\$ 13,114	\$ 11,340
Fair value changes not reflected in extrapolated actuarial value of net assets	(2,011)	(88)
Extrapolated actuarial value of net assets available for benefits	<u>\$ 11,103</u>	<u>\$ 11,252</u>

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

**8. ACTUARIAL VALUATION OF THE BASIC ACCOUNT FOR ACCOUNTING PURPOSES
(continued)**

Extrapolations may not be reliable indicators of the next valuation results nor do they necessarily reflect the overall trend of results. Between valuations, actual wage increases, investment earnings and the incidence of retirements, withdrawals, etc. may vary significantly from the long-term assumptions used in the extrapolation.

No unfunded liability exists for the IAA, since the obligation for future indexing benefits is limited to the amount of the available assets in the account.

9. INVESTMENT AND ADMINISTRATION COSTS

	2006	2005
	(\$ Thousands)	
Investment Management	\$ 17,738	\$ 15,315
Benefit Administration	7,098	6,835
Board Remuneration and Expenses	200	181
Board Secretariat Costs	189	181
Other Professional Services	415	291
	<u>\$ 25,640</u>	<u>\$ 22,803</u>

bcIMC and the Pension Corporation are related parties to the Plan. The Board appoints members to each of the respective corporate boards.

Costs for investment management services charged by bcIMC include costs for recovery of its internal and external investment management fees except those external management fees related to corporations wholly owned by the investment pooled funds.

Investment management cost of \$13.8 million (2005: \$8.4 million) representing the external management costs incurred by wholly owned corporations of the investment pooled funds are not included in the above amount.

Benefit administration costs represent amounts charged to recover benefit administration costs incurred by the Pension Corporation. These costs are approved by the Board. Included in accounts payable is \$671 thousand (2005: \$820 thousand) due to the Pension Corporation for those costs.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Board secretariat costs represent amounts for staffing and other costs associated with Board support.

Other professional service costs include actuarial, insurance, audit and legal fees.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

10. SUPPLEMENTAL BENEFITS ACCOUNT

The Supplemental Benefits Account is the account through which certain supplemental benefits are funded. For example, pension benefits which exceed the *Income Tax Act (Canada)* limits for registered pension plans are paid through this account. Certain group benefit coverage may also be provided for retired members through this account. The availability, type and level of retired member group benefit coverage are contingent upon the availability of funding for such benefits.

To the extent that group benefits are funded from the Supplemental Benefits Account, they are funded from current contributions that would otherwise be employer inflation contributions and cannot exceed 0.8% of pensionable salaries. Currently this represents approximately 71% of contributions that would otherwise be employer inflation contributions. Retired member group benefit costs (shown on the Statement of Changes in Net Assets Available for Benefits) represent group benefit costs paid by the Plan, less any premiums paid by retired members.

11. COMMITMENTS

The Plan participates in private placement and international real estate pools that are managed by bcIMC. As at December 31, 2006, the Plan's share of commitments (over the next several years) for future investment contracts in these pools is approximately \$660.7 million (2005: \$450 million).

bcIMC has established a collateral account pledged as security for a future investment opportunity that will not be funded until 2009. As at December 31, 2006, \$11.8 million (2005: \$12.4 million) of Basic Account Canadian bonds are being held as collateral for an investment commitment of \$10.4 million.

12. FINANCIAL INSTRUMENTS

The Plan's investments are recorded at fair value. Other financial instruments consist of cash, accounts receivable, accounts payable and accrued expenses. The fair values of these financial instruments approximate their carrying values.

Fair values of investments are exposed to price risk and credit risk. Price risk is comprised of foreign currency risk, interest rate risk, and market risk. Foreign currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.

**TEACHERS' PENSION PLAN
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006**

12. FINANCIAL INSTRUMENTS (continued)

Foreign Currency Risk

Foreign currency exposure arises from the Plan's holdings of foreign currency denominated investments and related derivative contracts. Foreign currency forward contracts are used to manage a portion of the currency exposure. A foreign currency forward contract is a contractual obligation either to buy or sell a specified amount of foreign currency at a predetermined future date and exchange rate.

Interest Rate Risk

The value of the Plan's assets is affected by changes in interest rates and their effect on capital markets. Actuarial liabilities are affected by changes in long-term market interest rates.

Market Risk

The Board approves the long-term asset mix policy for investment assets and oversees the management of these assets through the Board's investment management agent, bcIMC. Market risk is reduced through asset class diversification, diversification within each asset class and credit quality constraints on fixed income instruments.

Credit Risk

The plan limits derivative contract credit risk by dealing principally with counterparties that have a credit rating of A or higher as rated by the Dominion Bond Rating Service or equivalent.



Teachers' Pension Board of Trustees

MISSION STATEMENT

*"To fulfill the trust the Partners have placed
on us by efficiently meeting or exceeding
the pension promise made to plan members."*

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